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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the Matter of Federal–State Joint Board on Universal Service	CC Docket No. 96–45

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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August 28, 2000

No. of Copies rec'd 0+4
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Summary

GSA responds to comments by numerous parties concerning recommendations by the Federal–State Joint Board on Universal Service for phasing out the hold–harmless mechanism implemented to ensure that the high–cost support for a local exchange carrier will be no less per–line than the support level existing before the forward–looking cost methodology was adopted.

First, GSA urges the Commission not to adopt the recommendation by a state regulatory agency to eliminate Long–Term Support ("LTS") by a date certain. GSA notes that elimination of the hold–harmless provision without compensating changes would have harmful impacts on both rural and non–rural carriers. Therefore, GSA urges the Commission to adopt the Joint Board's recommendation that LTS be continued under the existing rules until the Commission considers high–cost reform for rural carriers and interstate access charge reform for rate–of–return carriers.

GSA acknowledges that LTS payments entail a substantial implicit subsidy of a relatively small number of LECs. Therefore, GSA concurs with parties who urge the Commission to hasten implementation of the reforms that are necessary before LTS reductions. Also, GSA concurs with comments that the Commission should take this opportunity to cut the overall funding needs for LTS by consistently applying the standard that this support is available only to carriers under rate–of–return regulation.

Finally, GSA explains that the Commission should not heed recommendations by several parties to delay phased reductions in high–cost support under Part 36 of the rules. The program described by the Joint Board is a judicious balance between the needs to maintain support and the requirements to reduce implicit subsidies. For example, the average monthly per–line support will be cut by no more than $1.00 per year for any carrier, so that states will not be faced with disruptive changes in interstate support for any study area. Moreover, since most eligible carriers now receive less than $1.00 monthly per–line, the initial reduction eliminates a substantial part of the subsidy while not severely reducing the per–line allocation for any carrier.

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The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") on the Public Notice ("Notice") released on July 11, 2000. The Notice seeks comments and replies on issues concerning the interstate high–cost support mechanism for non–rural carriers.

I. INTRODUCTION

In the *Ninth Report and Order* in this proceeding, the Commission prescribed a forward–looking high–cost support mechanism for non–rural carriers to become effective on January 1, 2000.[1] The Commission also prescribed an interim hold–harmless provision as a "transitional" vehicle to protect consumers in high-cost areas during the shift to forward–looking support.[2] The hold–harmless clause states that the amount of high-cost support to a non–rural carrier will be no less, on a per-line basis,

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1 Report and Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20432, November 2, 1999 ("*Ninth Report and Order*").

2 *Id.*

than the amount of support provided before the forward–looking cost methodology was adopted.[3]

On June 30, 2000, the Commission released a *Recommended Decision* containing steps advocated by the Federal–State Joint Board on Universal Service ("Joint Board") concerning the hold–harmless provision.[4] On July 12, 2000, the Common Carrier Bureau released the Notice seeking the views of parties on the Joint Board's recommendations.

GSA submitted Comments addressing the Joint Board's recommendations on August 14, 2000. In that submission, GSA concurred with the Joint Board's recommendation to continue Long–Term Support ("LTS") under the current rules until the Commission considers high–cost reform for rural carriers and interstate access charge reform for rate–of–return carriers. GSA also concurred with the Joint Board's recommendation to phase–down payments under Part 36 of the Commission's rules through reductions of $1.00 annually in each recipient's monthly per–line support effective on the first day of each year over the next several years.

In addition to GSA, 13 parties submitted comments in response to the Notice. These parties include:

- 6 local exchange carriers ("LECs") and groups of these carriers;
- 3 other carriers; and
- 4 state regulatory agencies.

In these Reply Comments, GSA responds to the positions advanced by those parties.

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3 Recommended Decision released June 30, 2000 ("*Recommended Decision*"), para. 1.

4 *Id.*

II. THE COMMISSION SHOULD NOT GRANT REQUESTS TO TERMINATE LONG–TERM SUPPORT BEFORE IMPLEMENTING REFORMS FOR RURAL AND RATE–OF–RETURN CARRIERS.

A. The hold–harmless provision for LTS is necessary until the Commission adopts other high–cost support mechanisms.

The interim hold–harmless provision encompasses two preexisting support mechanisms: (1) Long–Term Support ("LTS"); and (2) high–cost support under Part 36 of the Commission's rules. Regarding LTS, the Joint Board recommends that support be maintained under the existing rules until the Commission considers high–cost reform for rural carriers and interstate access charge reform for rate–of–return carriers.[5]

Among the parties submitting comments, only the Public Service Commission of the District of Columbia ("D.C. Commission") recommends elimination of LTS by a date certain regardless of any actions the Commission may take to change the regulatory procedures or support levels for rural or rate–of–return carriers.[6] The D.C. Commission observes that local ratepayers contribute to LTS, but do not receive any benefits, since no parts of the District of Columbia are "high–cost areas served by non–rural carriers."[7] Consequently, the D.C. Commission urges the Commission to terminate the LTS hold–harmless provision by January 1, 2001 to minimize the future burdens on local ratepayers.[8]

GSA urges the Commission not to take the step recommended by the D.C. Commission before adopting compensating measures. As GSA explained in its

5 Notice, para. 1.

6 Comments of the D.C. Commission, p. 4.

7 *Id.*, pp. 1–2.

8 *Id.*, p. 1 and p. 4.

Comments, elimination of the hold–harmless provision would have harmful impacts on both rural and non–rural carriers.[9]

GSA urges the Commission to view recommendations by entities in the District of Columbia concerning high–cost support programs in perspective. Because of the high proportion of business users and the extremely dense concentration of access facilities in the District of Columbia, this jurisdiction enjoys economies of scale and scope for telecommunications services that are without parallel except for a handful of the nation's cities. However, while the District of Columbia is not a high–cost area by any standard, the jurisdiction's low income residents benefit substantially from lifeline support programs that are outside the scope of the Joint Board's recommendations in this proceeding.[10] Just as the lifeline programs are vital in densely populated areas such as the District of Columbia, high–cost support programs are vital in jurisdictions with low subscriber densities.

Several parties responding to the Notice focus on the needs to continue LTS. For example, the United States Telecom Association ("USTA") explains that the Commission should retain LTS until completion of a new Federal universal service plan in order to ensure that rates are reasonably comparable among carriers within a state.[11] Similarly, the National Exchange Carrier Association ("NECA"), the National Rural Telecom Association, and the Organization for the Promotion and Advancement

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9 Comments of GSA, pp. 4–5.

10 In January 2000, the total Federal and local lifeline support in the District of Columbia was $10.50 monthly per line— a rate exceeded in only two jurisdictions in the nation. See Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service – March 2000*, Monthly Lifeline Support by State or Jurisdiction, Table 8.1.

11 Comments of USTA, p. 2.

of Small Telecommunications Companies ("Carrier Associations") support the Joint's Board's recommendation to maintain LTS under the existing rules.[12]

Comments by these carrier groups and separate comments by the National Telephone Cooperative Association express concern with the impact of phasing–down the hold–harmless provision before addressing access charges for rural carriers.[13] If LTS were reduced for non–rural carriers, the CCL charge for all participants in the NECA pool would increase.[14] In fact, according to NECA, complete elimination of LTS would cause the NECA rate to increase by 42 percent.[15]

GSA concurs with the positions articulated by these groups, which represent a wide cross–section of carriers. Therefore, GSA urges the Commission to continue the interim hold–harmless provision as proposed by the Joint Board.

B. The Commission should act expeditiously to eliminate the conditions that require continuation of LTS.

In the *Recommended Decision*, the Commission observes that the LTS payments for all carriers total about $478 million per year.[16] In the aggregate, these payments entail a substantial implicit subsidy flowing to a relatively small number of LECs.[17]

Implicit subsidies impede development and efficient operation of an open competitive marketplace. Therefore, GSA recommended continuation of the LTS hold–harmless provision only if the Commission follows a definite and reasonably accelerated schedule for implementing: (1) high–cost reform for rural carriers; and (2)

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12 Comments of Carrier Associations, pp. 2–4.

13 *Id.*, and Comments of National Telephone Cooperative Association, *passim.*

14 *Recommended Decision*, para. 9.

15 *Id.*

16 *Id.*, para. 6.

17 Comments of GSA, p. 4.

interstate access charge reform for rate–of–return carriers.[18] In their comments, the Carrier Associations also support expedited consideration of these reforms.[19]

As a related matter, comments in response to the Notice demonstrate that consistent application of the Commission's rules should eliminate a major portion of the requirements for LTS at the outset. This reduction stems from the fact that a principal recipient of LTS should no longer be eligible to participate in this program because of recent organizational changes in the telecommunications industry.

The LTS program was instituted to ensure reasonable comparability of interstate access charges among LECs by reducing the common carrier line ("CCL") charges of rate–of–return LECs that participate in the NECA common line pool.[20] Previously, all incumbent LECs pooled their interstate–allocated loop costs to set a nationwide CCL charge to be paid by interexchange carriers ("IXCs").[21] When individual LECs were permitted to leave the pool in 1989, the departing LECs — mostly larger, lower–cost carriers — were required to make LTS payments to prevent CCL charges for the remaining LECs from rising significantly above the national average.[22]

The eligibility for LTS has always been confined to carriers under rate–of–return regulation. Three non–rural LECs under this form of regulation currently receive LTS: Roseville Telephone Co. in California, North State Telephone Co. in North Carolina, and the Puerto Rico Telephone Co ("PRTC").[23] The Telecommunications Regulatory

18 *Id.*, p. 5.

19 Comments of Carrier Associations, pp. 8–9.

20 *Recommended Decision*, para. 5.

21 *Id.*

22 *Id.*

23 Comments of GSA, p. 4, citing *Recommended Decision*, para. 6.

Board of Puerto Rico ("Puerto Rico Board") reports that PRTC currently receives 90 percent of the total LTS for non–rural carriers.[24]

On February 12, 1999, the Commission approved an application to transfer control of PRTC to GTE.[25] According to the Commission's rules, a carrier is required to file interstate access tariffs using the price cap methodology within 12 months of the approval of such a transfer.[26] However, price cap regulation is not presently employed for PRTC –– and hence LTS continues on a temporary basis –– because the Commission has not yet acted on a petition for waiver filed by PRTC on December 10, 1999.[27]

In comments responding to the Notice, WorldCom states that it has no objection to allowing carriers remaining in the NECA pool to continue receiving LTS.[28] However, WorldCom explains that the Commission should not permit PRTC to continue to receive this support since this firm has been acquired by a carrier under price cap regulation.[29] Moreover, WorldCom explains that participation in LTS is particularly inappropriate in this instance because of GTE's merger into Bell Atlantic, another major LEC that opted for price cap regulation as soon as it was available.[30]

GSA concurs with WorldCom that no carrier should simultaneously receive the advantages of price cap regulation and the benefits of LTS. Therefore, GSA urges the

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24 Comments of Puerto Rico Board, p. 2.

25 Puerto Rico Telephone Authority, Transferor, and GTE Holdings (Puerto Rico) LLC, Transferee, For Consent to Transfer Control of Licenses and Authorization Held by Puerto Rico Telephone Company and Celulares Telefonica, Inc., Memorandum Opinion and Order, 14 FCC Rcd 3122 (1999).

26 47 C.F.R. § 61.41(c)(2).

27 In the Matter of Puerto Rico Telephone Company Petition of Waiver of Section 61.41 or Section 54.303(a) of the Commission's Rules, Order released June 5, 2000, paras. 1–3.

28 Comments of WorldCom, p. 4.

29 *Id.*,

30 *Id.*, p. 2.

Commission to take this opportunity to reduce the overall funding requirements for LTS by consistently applying the standard that this form of support is available only to carriers under rate–of–return regulation.

III. THE COMMISSION SHOULD NOT HEED RECOMMENDATIONS BY SEVERAL PARTIES TO DELAY PHASED REDUCTIONS IN HIGH–COST SUPPORT UNDER PART 36 OF THE RULES.

The second mechanism for providing support to non–rural carriers serving areas with higher than average access cost is specified in Part 36 of the Commission's rules. This procedure provides LECs with a variable percentage of their total unseparated loop costs depending on the carrier's total number of working loops and the extent to which the carrier's weighted average cost for local loops exceeds the national average.[31] The Joint Board recommends that support be phased down through annual cuts of $1.00 in each recipient's monthly per–line support.[32] Under the Joint Board's plan, support would be eliminated for all carriers receiving support of less than $1.00 monthly per line by January 1, 2001.[33]

Several parties do not agree with the Joint Board's recommended phase–down schedule. On the one hand, the D.C. Commission asserts that Part 36 support, like LTS, should be totally eliminated by January 1, 2001.[34] On the other hand, the Wyoming Public Service Commission asserts that phased reductions should not even begin at this point because state regulators and carriers must be given more

31 *Recommended Decision*, para. 1 and n. 4.

32 *Id.*, para. 13.

33 *Id.*

34 Comments of D.C. Commission, p. 4.

opportunities to implement rate designs that adjust to the new, forward–looking support mechanisms.[35]

Comments by two carriers also advocate delay in implementing phase–down of Part 36 support. Verizon states that the Joint Board's proposal, although seemingly gradual, would actually produce a rapid loss of high–cost support in the early years.[36] Without mentioning its organizational relationship to PRTC, Verizon complains that Puerto Rico would be the "hardest hit" region.[37] In separate comments, PRTC argues against reductions in any form of high–cost support.[38]

GSA urges the Commission to reject these requests. In spite of the claims, the recommended program is gradual and reasonable. The "rapid loss of support in the early years" to which Verizon refers is simply a consequence of the fact that the great majority of the carriers, 13 of the 18 recipients of this support, now receive less than $1.00 monthly per–line.[39] Thus, the reduction of $1.00 monthly on January 1, 2000 eliminates a substantial part of the total subsidy while not severely reducing the per–line allocation for any individual carrier.

Unlike LTS, the Part 36 interim support for non–rural carriers is completely independent of the support mechanism for rural LECs.[40] Thus, there is no argument that the Commission should defer the phase–down process for Part 36 support to non–rural LECs until beginning high–cost reform for rural carriers. Moreover, under the approach endorsed by the Joint Board, the average monthly, per–line support will

35 Comments of Wyoming Public Service Commission, p. 6.

36 Comments of Verizon, p. 2.

37 *Id.*

38 Comments of PRTC, pp. 1–5.

39 Comments of GSA, p. 6.

40 *Id.*, p. 7.

be cut by no more than $1.00 per year for any carrier, so that states will not be faced with disruptive changes in interstate support for any study area. Therefore, to begin eliminating subsidies in an orderly and responsible way, GSA recommends that the Joint Board's recommendation for Part 36 high–cost support be adopted.

IV. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

Respectfully submitted,

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August 28, 2000

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I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 28th day of August, 2000, by hand delivery or postage paid to the following parties.

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